ALBERTA OPPORTUNITY COMPANY

Turning Opportunity into Enterprise

2001/2002 ANNUAL REPORT

AN ALTERNATIVE SOURCE OF BUSINESS FINANCING SINCE 1972

Minister's Message

Small Business is at the essence of the Alberta spirit. The Alberta Government believes strongly in the values of entrepreneurship and the role that small business people play in building our communities and our province. Entrepreneurs are people who continually seek and respond to business opportunity when it presents itself. For almost thirty years, Alberta Opportunity Company (AOC) has been there to help them turn that opportunity into enterprise.

One of Alberta's greatest strengths is our robust rural economy, and at the core of this are the small towns that serve those rural areas. Businesses in small communities often struggle to find appropriate financing to get started or to expand. Commercial financial institutions are sometimes reluctant to take a risk on those small enterprises, simply because they are located in remote locations. AOC has taken a lead role in looking at viable proposals from small businesses located in rural communities, taking that extra measure of risk to build those businesses, and the communities in which they are located.

In creating AOC, the Alberta Government was not being critical of commercial lenders or their lending decisions, as these are made for business or lending policy reasons. Our goal has always been to supplement the activities of commercial lenders, working as partners to stimulate and grow the entrepreneurial part of our economy. This is all part of the *Alberta Advantage*. AOC's focus on rural communities does not mean that small businesses in the urban markets are overlooked. AOC has worked with all Alberta businesses, whether rural or urban, and has been ready to respond to the needs of entrepreneurs when they present a sound business plan, and when they are unable to secure the needed financing through conventional sources.

Commencing April 1, 2002 AOC will be merged with the operations of Agriculture Financial Services Corporation (AFSC), operating as part of the AFSC Commercial Division. We believe this merger will stimulate a number of synergies between the two organizations, and realize savings in operating costs as the two corporations restructure.

In sponsoring this merger, the Alberta Government is committed to maintaining and carrying forward the legacy of AOC in the operations of the merged corporation. Small business and entrepreneurship remains a priority and we have undertaken to provide the same or better service to Alberta's entrepreneurs in the years ahead.

I would like to take this opportunity to thank the retiring directors of Alberta Opportunity Company for their many years of service in guiding the Company's operations so successfully. Those directors are Thomas Bugg of Calgary, James Cumming of Edmonton, Paul Evaskevich of Grande Prairie, Lawrence Gordon of Medicine Hat, David Hardy of Red Deer, and Louise Severin of St. Paul. Also retiring are Board Chair Michael Procter of Peace River, and AOC President and Managing Director Jim Anderson who leaves after 29 years of service to Alberta's entrepreneurs. Former AOC directors Barry Holmes of Rocky Mountain House and Wayne Wagner of Edmonton have accepted appointments to the Board of AFSC, bringing to the merged corporation their experience at AOC.

Shirley McClellan

Hon. Shirley McClellan
Deputy Premier, &
Minister of Agriculture,
Food & Rural Development

Report from the Directors

After 29 years of operation, we are proud to submit the final Annual Report under the name of Alberta Opportunity Company (AOC), as we complete the transition into the Agriculture Financial Services Corporation (AFSC).

The Agriculture Financial Services Amendment Act received Royal Assent on May 14, 2002, effectively completing the merger process. All of AOC's roles and responsibilities have now been melded into the merged corporation.

A proud legacy

In our 29 years as AOC, we provided over 10,000 loans to Alberta businesses of almost all types and descriptions. Each business has its own unique story to tell. In this time, AOC has participated in supporting the general prosperity of Alberta. Our role has always been a quiet one, but it has been significant in sustaining the development of smaller communities across the province.

By continuously supporting entrepreneurs who have had difficulty arranging the financing they needed to start or expand their businesses, AOC has become an important and consistent resource for the Alberta small business community. AOC has always tried to serve this role in partnership with conventional financial institutions such as chartered banks, credit unions, and ATB Financial. We do not compete with them, and have always been prepared to stand aside when they are willing to provide the required financing. We believe that our strict adherence to this philosophy has earned us a high degree of trust and respect from these conventional lenders. This relationship has allowed many small businesses to obtain their initial financing through AOC, and later move on to develop long term financial relationships with those same conventional financial institutions that at first may have been hesitant to deal with them.

AOC's legacy is found in all of those small businesses that continue to contribute to the prosperity of our province. Long after AOC's loan has been repaid, these businesses still develop the ideas, make the products, create the jobs, and generate the exports. We take pride in their accomplishment and the part we played in their success.

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...turning opportunity into enterprise.

Always a *leg up*; never a *hand out*

Our approach to supporting entrepreneurs has been based on a balanced assessment, and a full appreciation for the risks associated with them. Capable management, a solid business plan, and a demonstrated capacity to repay the loan have always been the key ingredients in our assessment. In so doing, we have taken risks, but always on an informed basis, and with a portfolio approach to controlling and managing those risks.

The key element in the service we provide to entrepreneurs is simply to take that "one last look" at their requirements, and to provide financing for the ones we believe possess those key ingredients. We have not subsidized interest rates or provided other incentives to our borrowers.

Our approach has always been to provide a *leg up*, rather than a ***hand out***.

Ending on a high note

Fiscal 2002 saw Alberta Opportunity Company continue its record of successful operations. Highlights include a profit of $6.2 million after the operating grant of $5.6 million from the Province of Alberta. This net funding surplus of $0.6 million means that AOC was able to operate at no net cost to the Alberta taxpayer during the year.

Our October 2001 survey of the economic impact of current AOC borrowers on the Alberta economy confirms that $805 million in revenues were generated by those borrowers, including $127 million in exports. These borrowers employ 6,200 Albertans, and make a significant continuing contribution to the economy of our province.

Portfolio growth was modest during the year, at 0.4 percent. This reflects the effect of lower interest rates on the economy, and the relative improvement in the ability of our borrowers to migrate to commercial sources of financing at more advantageous interest rates.

While this trend impacts AOC's financial performance, it is in keeping with our broader goal of stimulating economic development by acting as a catalyst for emerging businesses.

These operations are more fully discussed in the **Management Discussion and Analysis** section of this report.

A bright future

AOC's role and mandate will be carried forward under the merged corporation, ***AFSC***, and integrated with those of the ***AFSC Commercial Division***. All services previously provided by AOC will be offered under this new banner. We believe that there are many synergies and efficiencies to be gained through the merger, which will result in a broader range of services to both the small business community and the agri-business sector. Our familiar slogan ***"Turning Opportunity into Enterprise"*** will be continued as our byline.

...we are committed to being a customer focused organization, listening to and learning from your ideas and suggestions...

We will continue to look for new services to provide to the Alberta small business community, and new ways to deliver our existing services. As always, we are committed to being a customer focused organization, listening to and learning from your ideas and suggestions on how we can better help aspiring entrepreneurs ***turn opportunity into enterprise***.

Bob Splane
Chairman

James R. Anderson
President & Managing Director

Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Performance Measures

AUDITOR GENERAL *Alberta*

To the Board of Directors of the Agriculture Financial Services Corporation

I have performed the following specified auditing procedures in connection with Alberta Opportunity Company's performance measures included in its *2001-02 Annual Report.*

1. New loans/guarantees, loan write-offs net of recoveries, and jobs created/preserved were agreed to the internal loan management system data.
2. The amount recorded in the loan management system was agreed to the original loan contract for a sample of 35 implemented loans and five guarantees.
3. The operating grant from government was confirmed with Agriculture, Food and Rural Development.
4. The net cost to government was recalculated by subtracting the operating grant from government from the reported audited net income figure.
5. The loan write-offs balance recorded in the loan management system was agreed to minutes of the Alberta Opportunity Company's Board of Directors meeting.
6. The loan write-offs net of recoveries as a percentage of the gross loan portfolio were recalculated.
7. The calculations which converted source information into reported measures were tested.
8. The appropriateness of the description of each measure's methodology was assessed to ensure that it did not materially misrepresent the information presented.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit of the set of performance measures and therefore I express no opinion on the set of performance measures included in the *2001-02 Annual Report of Alberta Opportunity Company.*

Fred J Dunn

CA
Auditor General

Edmonton, Alberta
June 26, 2002

Management Discussion and Analysis

This report is prepared to help you assess and fully understand the financial position and results of operations of Alberta Opportunity Company. It also provides a review of AOC's risk management policies and an outlook for the future. This section should be read in conjunction with the audited Financial Statements and supporting notes reported on pages 8 to 18 of this report. Dollar amounts presented in the tables are in thousands unless otherwise indicated.

Overview of 2002 Results

In fiscal year 2002 AOC successfully contributed to the economic development of Alberta by providing financing solutions to small businesses when it was unavailable from conventional sources. AOC helped entrepreneurs start or expand their business by providing 237 loans, bank guarantees and export guarantees totalling $42.5 million. This compares to 267 authorizations totalling $39.4 in 2001.

The size of our loan portfolio continues to grow with a modest increase of 0.4% in fiscal 2002, bringing the total to $132.2 million. AOC reported a net income of $6.2 million for the year, which compares to 2001 net income of $5.4 million.

Performance Management

AOC continues to meet the needs of our small business borrowers in an efficient, effective and economic manner. By focusing on business plan goals and incorporating a balanced scorecard performance measurement system, we are able to compare our achievements against performance measures as follows:

Performance Measures	2002 Target	2002 Actual	2001 Actual
New loans/guarantees	$ 40.5 million	$ 42.5 million	$ 38.1 million
Operating grant from government	$ 5.6 million	$ 5.6 million	$ 5.5 million
Net cost (surplus) to government	$ 5.3 million	$ (0.6 million)	$ 0.1 million
Loan write-offs, net of recoveries	3.0% of loan portfolio	1.3% of loan portfolio	0.9% of loan portfolio
Jobs created/preserved	2,400	1,000	2,600

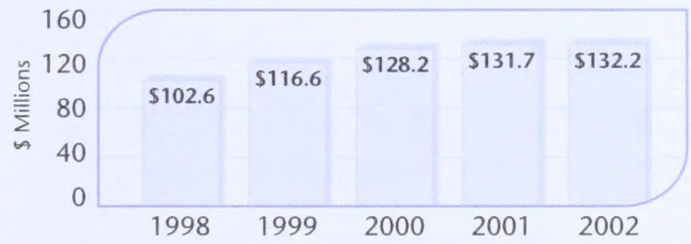
AOC conducts an annual survey of our borrowers to determine the direct impact of these operations on the economy. For the 2002 fiscal year the survey included 852 borrowers compared to 883 borrowers in 2001. The following chart highlights the findings of our survey.

Economic Impact	2002	2001
Total annual revenues	$ 805 million	$ 707 million
Export sales outside of Alberta	$ 127 million	$ 126 million
Employment – full-time equivalent positions	6,200 jobs	6,300 jobs
Payroll	$ 182 million	$ 168 million
Corporate income, property and business taxes paid (excludes payroll, GST or indirect taxes)	$ 7 million	$ 8 million

Financial Highlights

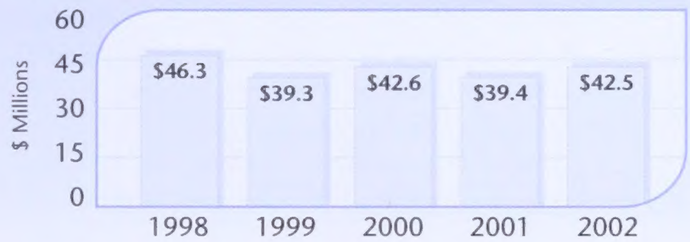
Loans Receivable

Consistent demand for financing led to an increase in the loan portfolio of $0.5 million for the year, to $132.2 million, an increase of 0.4%. In fiscal 2002, 44% of loan approvals were for amounts of $100,000 or less and 62% of approvals were to rural areas – 59% and 61% in 2001 respectively. This reflects the Company's commitment to smaller businesses.



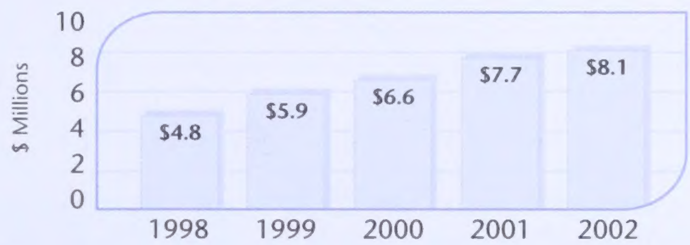
Authorizations – Loans & Guarantees

Total authorizations of $42.5 million were $3.1 million or 8% greater than last year. These results exceed targeted authorizations for the year by 5%.



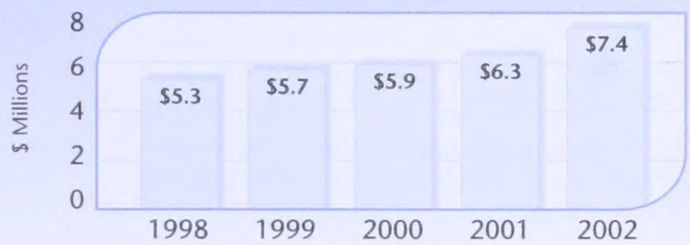
Net Interest Income

Net interest income of $8.1 million, was higher by $0.4 million or 5% over the previous year. Interest revenue is earned from interest charged on outstanding loans and from cash deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund. Interest expense includes interest paid to the Province of Alberta on note borrowings.



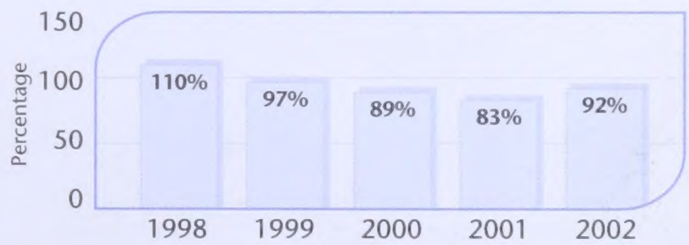
Operations Expense

Operating costs increased by $1.1 million or 17% over last year and are primarily attributable to salary increases and a number of severances due to the amalgamation of the Company with Agriculture Financial Services Corporation. Overall operating costs are tightly controlled and have not increased in direct relation to increases in lending activity levels. Actual operating costs in 2002 were 3% over budgeted amounts.



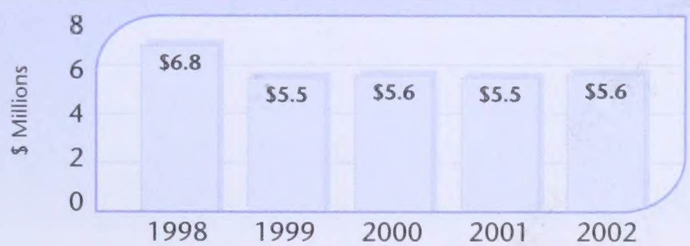
Operating Cost Ratio

The operating cost ratio increased to 92% in fiscal 2002, compared to 83% in 2001. This ratio measures overall productivity by comparing operating costs to net interest income, with a lower ratio indicating higher productivity.



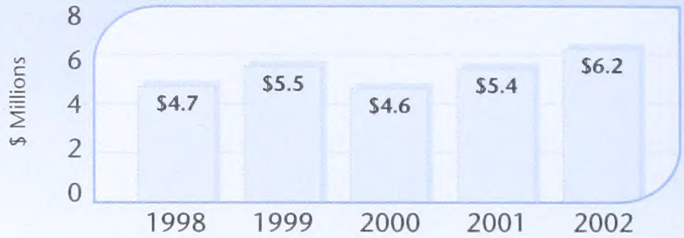
Grant from Province

Grant from Province of Alberta is required to maintain the financial viability of AOC for providing assistance to small business.



Net Income

Net income of $6.2 million increased by $0.8 million or 15% from 2001 results. This is primarily due to a decrease in the charge for loan losses and an increase in net interest income. In 2002 AOC decreased its allowance for loan losses to 7.5% compared to 8.9% in 2001. Actual loan write-offs were $2.3 million compared to $1.5 million in 2001.



Financing Activities

Financing needs are met by borrowing from the General Revenue Fund at current market rates. Notes payable to the Province of Alberta as at March 31, 2002 totalled $83.0 million, a decrease of $6.6 million from March 31, 2001. The weighted-average interest rate on notes payable decreased to 5.0% from 5.5% in 2001.

Risk Management

AOC's risk management framework includes processes for the evaluation and acceptance of risk within appropriate limits in the areas of credit risk, interest rate risk and operational risk.

Credit risk arises from potential for a borrower to default on their loan obligations to the Company. The risk range in which AOC operates tends to be higher than that of conventional financing institutions because our mandate is to provide loans to Alberta businesses that have viable business proposals, when such support is not available from conventional lenders. Standards that are applied in the management of credit risk include:

- clear communication to account managers of lending policies, security requirements and operating procedures;
- competency requirements for all officers whose responsibilities include evaluation of credit risk, and delegation of decision-making authority consistent with demonstrated ability;
- disciplined decision-making with loan proposals over $30,000 evaluated by a minimum of two officers. In the case of all large loans, approval from a committee of senior management or the Board of Directors is required; and
- prompt recognition, regular monitoring and timely evaluation of problem accounts.

Concentration of credit risk exists where a number of borrowers are engaged in similar activities, or are located in the same geographic region, or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Note 11 to the Financial Statements provides information on AOC's concentration of credit risk.

Interest rate risk refers to the sensitivity of net interest income to changes in interest rates. This risk is managed by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to balance the average terms of AOC's loan portfolio while maintaining an appropriate interest spread. All loans are provided at fixed interest rates over terms of one to five years. Please refer to Note 11 to the Financial Statements for a net gap analysis of the mismatch of financial liability maturities and financial asset maturities.

Operational risk is the potential for loss as a result of a breakdown in information, or transaction processing or legal compliance systems due to procedural or systems failures, errors, natural disasters or fraudulent activity. Operational risk is managed by a system of internal controls that requires segregation of duties, clearly established authorities, documentation of policies, procedures and code of conduct, accounting and record-keeping systems, financial and managerial reporting, back-up procedures and insurance coverage.

Future Outlook

Alberta's strong and vibrant economy continues to be one of the fastest growing in Canada. The Conference Board of Canada reports real GDP growth in calendar year 2002 is estimated at 1.7% for Alberta, compared to a growth rate of 1.2% for the rest of Canada. Stronger domestic demand, higher exports, strong energy and manufacturing sectors, strong retail sales and increased demand in the advanced technology sector will be major players in fuelling this economic growth. Alberta's highly entrepreneurial and innovative business community will continue to take advantage of these economic opportunities to grow and prosper.

We are expecting to once again experience strong performance in the coming year based on the ongoing strength of the Alberta economy. Support for small businesses in the advanced technology sector will continue to be met as the merger of AOC with AFSC proceeds through the year. We are committed to maintaining or exceeding the service levels that were previously provided by both organizations.

The downside risks to this forecast are uncertainty about high energy and natural gas rates and their effect on economic growth, sharper than expected slowdown in the United States economy, and possible skill shortages in a number of Alberta industries. Our commitment to small to mid-sized businesses located in smaller communities necessarily implies a level of risk beyond that which is acceptable to conventional lenders. This means that we are exposed should there be any softening in the economy, which almost always impacts these small businesses first. This risk is managed through disciplined credit risk policies and conservatism in setting allowances for loan losses.

We will continue to strive for excellence inspired by the resourcefulness and innovative spirit of Alberta's entrepreneurs.

Management's Responsibility for Financial Information

The accompanying financial statements of Alberta Opportunity Company and all information in this annual report are the responsibility of the Company's management and have been reviewed and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on informed judgments and best estimates of management. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Budget and Audit Committee of the Board, which is composed of Directors who are not employees of the Company. The Budget and Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Budget and Audit Committee.

The Auditor General of Alberta, the Company's independent auditor, is responsible for auditing the transactions and financial statements of the Company and for issuing an opinion thereon.

J.R. Anderson

James R. Anderson
President and CEO

M. Greipl

Mag R. Greipl
Chief Financial Officer

Auditor's Report

AUDITOR GENERAL
Alberta

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Alberta Opportunity Company as at March 31, 2002 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J Dunn

CA
Auditor General

Edmonton, Alberta
May 3, 2002

Balance Sheet

As at March 31, 2002 (in thousands)

	2002	2001
Assets		
Cash	$ 4,185	$ 6,663
Accounts receivable	16	13
Loans receivable (Note 3)	122,247	119,968
Property held for sale (Note 5)	656	680
Property, plant and equipment (Note 6)	1,156	1,159
	$ 128,260	$ 128,483
Liabilities and Retained Earnings		
Accounts payable and accrued liabilities	$ 2,255	$ 2,087
Notes payable (Note 7)	83,026	89,632
	85,281	91,719
Retained earnings	42,979	36,764
	$ 128,260	$ 128,483

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors:

Chairman

Director

Statement of Income and Retained Earnings

For the year ended March 31, 2002 (in thousands)

	2002 Budget (Note 14)	2002 Actual	2001 Actual
Net Interest Income			
Interest income	$ 11,287	$ 12,814	$ 12,856
Interest expense	5,453	4,740	5,194
	5,834	8,074	7,662
Net Interest Income After Charge for Losses			
Charge for loan losses and losses on realization (Notes 4 and 5)	4,511	592	2,041
	1,323	7,482	5,621
Other Income			
Application and processing fees	545	568	549
Grant from the Province of Alberta for the assistance of small business	5,570	5,570	5,524
	6,115	6,138	6,073
Net Interest and Other Income	7,438	13,620	11,694
Non-Interest Expense			
Operations (Note 9)	7,186	7,405	6,336
Net Income	$ 252	$ 6,215	$ 5,358
Retained Earnings, Beginning of Year		36,764	31,406
Retained Earnings, End of Year		$ 42,979	$ 36,764

Statement of Cash Flows

For the year ended March 31, 2002 (in thousands)

	2002	2001
Operating Activities		
Net income	$ 6,215	$ 5,358
Recoveries of loans written off	575	281
Interest paid on maturity of notes	(740)	(1,037)
Items not affecting cash:		
Charge for loan losses and losses on realization	592	2,041
Amortization of property, plant and equipment	324	219
Amortization of note discounts	770	1,309
Net change in other assets and other liabilities	616	302
Cash flows from operating activities	8,352	8,473
Investing Activities		
Loans disbursed	(35,761)	(35,254)
Proceeds from repayment of loans	32,289	29,636
Payment of called guarantees	(637)	(50)
Sale (acquisition) of property held for sale	223	(46)
Purchase of property, plant and equipment (net of sale proceeds)	(309)	(253)
Cash flows used in investing activities	(4,195)	(5,967)
Financing Activities		
Proceeds of notes	19,948	33,981
Repayment of notes	(26,583)	(31,070)
Cash flows from financing activities	(6,635)	2,911
Net (decrease) increase in cash	(2,478)	5,417
Cash, beginning of year	6,663	1,246
Cash, end of year	$ 4,185	$ 6,663
Supplementary cash flow information:		
Interest paid during the year	$ 3,969	$ 4,777

Notes to the Financial Statements

March 31, 2002 (tabular amounts in thousands of dollars)

Note 1

Authority and purpose

Alberta Opportunity Company (the "Company") operates under the authority of the Alberta Opportunity Fund Act, Chapter A-28, Revised Statutes of Alberta 2000, as amended. See Note 15.

The Company is exempt from income taxes under Section 149 of the Income Tax Act.

The purpose of the Company is to provide financial assistance and guidance for the development of Alberta business.

Priority is given to smaller businesses in rural communities which, although viable, are unable to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

The Province of Alberta maintains the financial viability of the Company by granting money appropriated for this purpose.

Note 2

Significant accounting policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following paragraphs describe the significant accounting policies.

Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

Loans receivable

Interest revenue is accrued on loans until such time as a loan is classified as impaired. Interest income is not recognized on impaired loans until such time as the charges for loan impairment have been reversed. Loan application and processing fees are included in income when charged.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is reasonable doubt as to the timely collection of some portion of principal and interest. A loan where payment of interest is contractually past due 60 days is classified as impaired unless there is no reasonable doubt as to the collectability of all interest and principal.

Loans receivable are stated net of an allowance for loan losses. The allowance for loan losses represents management's best estimate of probable losses on loans outstanding. The allowance has a specific and a general component. The specific allowance is established following a detailed review on a loan-by-loan basis wherein the discounted future cash flows and the fair value of the security underlying the loan are determined. The specific allowance reduces the carrying value of the impaired loans to their estimated realizable values. The general allowance recognizes that not all credit losses can be specifically identified on a loan-by-loan basis. The general allowance is determined by historical trends in loss experience and the current portfolio profile together with management's evaluation of other existing conditions at the balance sheet date. Changes in the allowance for loan losses are reflected in income.

Note 2 (cont.)

Property held for sale

Property held for sale is valued at the lower of cost and estimated net realizable value and is stated net of an allowance for losses on realization. The allowance for losses on realization represents management's best estimate of probable losses on selling the property. Changes in the allowance for losses on realization are reflected in income. Operating costs less rental revenues are added to the cost of the properties.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is calculated using the straight-line basis over the estimated useful lives of the assets as follows:

Furniture and office equipment	-	15%
Computer equipment and software	-	20%
Leasehold improvements	-	term of each lease

Notes payable

Notes payable are stated net of unamortized discounts and premiums. Unamortized discounts result when the Company receives funds less than the face value of the note. Unamortized premiums result when the Company receives funds in an amount greater than the face value of the note. Unamortized discounts and premiums are amortized on a straight-line basis over the term to maturity and included in interest expense.

Pensions

The Company participates in multiemployer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

Operating grant

The grant from the Province of Alberta is recorded as revenue in the year for which it is approved.

Note 3

Loans receivable

	2002	2001
Loans and accrued interest receivable	$ 119,724	$ 117,561
Impaired loans	12,505	14,156
	132,229	131,717
Less allowance for loan losses (Note 4)		
Specific allowance	3,996	5,283
General allowance	5,986	6,466
	9,982	11,749
	$ 122,247	$ 119,968

Security on loans receivable consists of general security agreements, land mortgages, debentures and guarantees. Loans generate a weighted average interest return of 9.2% (2001-9.5%).

Note 4

Allowance for loan losses

	2002	2001
Allowance, beginning of year	$ 11,749	$ 11,177
Charge for loan losses	(52)	1,759
Write-offs	(2,290)	(1,468)
Recoveries of amounts previously written off	575	281
Allowance, end of year	$ 9,982	$ 11,749

Note 5

Property held for sale

	2002	2001
Cost	$ 1,921	$ 1,638
Less allowance for losses on realization		
Allowance, beginning of year	958	703
Charge for losses on realization	644	282
Reversal on sale	(337)	(27)
Allowance, end of year	1,265	958
	$ 656	$ 680

Note 6

Property, plant and equipment

			2002	2001
	Cost	Accumulated amortization	Net book value	Net book value
Equipment and software	$ 2,487	$ 1,334	$ 1,153	$ 1,147
Leasehold improvements	151	148	3	12
	$ 2,638	$ 1,482	$ 1,156	$ 1,159

Equipment and software includes $nil (2001-$657,000) in software at cost which is not being amortized due to being under development.

Note 7

Notes payable

Notes are payable to the Province of Alberta. Interest on notes with maturities greater than one year is payable semi-annually. The balance includes $441,000 (2001-$859,000) in unamortized discounts and $1,003,000 (2001-$1,276,000) in unamortized premiums.

Maturity date	Series	Interest rate	2002	2001
December 11, 2001	Note 024	5.68%	$ -	$ 13,282
March 27, 2002	Note 005	5.44%	-	13,198
September 30, 2002	Note 008	5.00%	12,216	12,167
December 10, 2002	Note 026	2.31%	10,138	-
March 31, 2003	Note 013	5.00%	14,169	14,137
December 1, 2003	Note 015	5.10%	9,955	9,928
March 30, 2004	Note 019	5.30%	5,996	5,995
December 1, 2004	Note 023	5.75%	5,944	5,924
December 1, 2005	Note 025	7.50%	14,728	15,001
December 1, 2006	Note 027	5.25%	9,880	-
			$ 83,026	$ 89,632

Scheduled principal repayments are as follows:	2003	$ 36,523
	2004	15,951
	2005	5,944
	2006	14,728
	2007	9,880
		$ 83,026

Note 8

Pensions

The Company participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Company also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $270,000 for the year ended March 31, 2002 (2001-$264,000).

At December 31, 2001, the Management Employees Pension Plan reported a surplus of $5,338,000 (2000-restated $170,858,000) and the Public Service Pension Plan reported a surplus of $320,847,000 (2000-$635,084,000). At December 31, 2001, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $399,000 (2000-surplus $180,000).

Note 9

Operations

	2002		2001
	Budget	Actual	Actual
Salaries and benefits	$ 4,491	$ 5,165	$ 4,246
Communications	662	541	464
Occupancy	510	499	492
Legal and other fees	515	343	335
Amortization of property, plant and equipment	315	324	219
Board of Directors fees	68	53	62
Other	625	480	518
	$ 7,186	$ 7,405	$ 6,336

Note 10

Salary and benefits disclosure

			2002	2001
	Salary[(a)]	Benefits[(b)]	Total	Total
Chairman of the Board	$ 14	$ -	$ 14	$ 11
President and CEO[(c)]	140	5	145	174
Regional Vice President, South	117	32	149	132
Chief Financial Officer	106	27	133	126
Regional Vice President, North[(d)]	75	39	114	142
Manager, Corporate Development	103	10	113	107

(a) *Salary includes regular base pay, bonuses and Board of Directors fees.*

(b) *Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, short-term disability plan, professional memberships and vacation payouts. Payments for vacation entitlements included as benefits were as follows:*

	2002	2001
President and CEO	-	14
Regional Vice President, South	4	4
Chief Financial Officer	4	5
Regional Vice President, North	22	-
Manager, Corporate Development	6	5

(c) *Automobile provided, no amount included for benefits.*

(d) *Position eliminated November 30, 2001.*

Note 11

Financial instruments

Fair values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Company's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are significantly affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of judgment and, therefore, the fair value amounts should not be interpreted as being necessarily realizable in an immediate settlement of the instruments.

The Company has determined the fair value of its financial instruments as follows:

(a) Cash, accounts receivable, accounts payable and accrued liabilities.

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

(b) Loans receivable

The estimated fair value of loans is determined by discounting the expected future cash flows of these loans at current interest rates for developmental loans with similar terms and credit risks.

	2002		2001	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Loans	$ 122,247	$ 131,837	$ 119,968	$ 127,184

Note 11 (cont.)

(c) Notes payable

The estimated fair value of the Company's debt instruments is determined by discounting the expected future cash flows of these instruments at current Province of Alberta AAA borrowing rates for notes with similar terms.

	2002		2001	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Notes payable	$ 83,026	$ 84,340	$ 89,632	$ 90,186

Credit risk management

Credit risk arises from the potential for borrowers to default on their contractual loan obligations. Credit exposure on the Company's loan portfolio is managed through due diligence and account administration. To minimize the credit risk associated with the loans the Company requires security agreements and personal guarantees on all loans.

Of the total loans outstanding at March 31, 2002, approximately 23% related to the accommodation and food service industry (2001-22%), 17% related to retail trade (2001-21%), 11% related to manufacturing (2001-13%) and 7% related to real estate and insurance (2001-10%). No other industry segment exceeded 5% of the total portfolio. Management considers the aforementioned concentrations to be within acceptable limits.

Interest rate risk management

Interest rate risk refers to the potential impact of changes in interest rates on the Company's earnings when maturities of its financial liabilities are not matched with the maturities of its financial assets.

The Company manages interest rate risk by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to match the average terms of the Company's loan portfolio.

The table below summarizes amounts by maturity dates and weighted average effective interest rates. The net gap position represents the mismatch of financing and loan portfolio at March 31, 2002.

	Term to Maturity[a]			2002	2001
	Within 1 Year	1 to 5 Years	Non-Rate Sensitive[b]	Total	Total
Carrying Value					
Cash	$ 4,185	$ -	$ -	$ 4,185	$ 6,663
Loans Receivable	21,156	96,787	4,304	122,247	119,968
Notes Payable	36,523	46,503	-	83,026	89,632
Net gap	$ (11,182)	$ 50,284	$ 4,304	$ 43,406	$ 36,999
Effective Yield[c]					
Loans Receivable	11.15%	10.77%	-	10.84%	11.08%
Notes Payable	4.21%	6.43%	-	6.04%	6.06%

(a) Term to maturity reflects the period of time until a loan matures or where an interest rate is renegotiated. For notes payable, term to maturity reflects the period of time until the maturity date of the notes.

(b) Includes net impaired loans, expired loans, and general provisions.

(c) For loans receivable, yield represents the rate which discounts future cash receipts to the carrying amount. For notes payable, yield represents the rate which discounts the stream of future payments from the reporting date to the maturity date.

Note 12

Contingent liabilities

Guarantees of bank loans

The Company is contingently liable as a guarantor of bank operating lines of credit as follows:

	2002	2001
Guarantees	$ 4,818	$ 4,290
Export guarantees	1,145	1,295
	$ 5,963	$ 5,585

Legal actions

At March 31, 2002, the Company is a defendant in five legal claims (2001-six legal claims). All of these claims have specified amounts totaling $16,688,000 (2001-six claims with a specified amount of $17,027,000). The Company has been jointly named with other entities in all of these claims.

The resulting loss, if any, from these claims cannot be determined.

Note 13

Commitments

Unimplemented authorizations

	2002	2001
Loans	$ 11,859	$ 7,780
Guarantees	$ 300	$ 375
Export guarantees	-	345
	$ 300	$ 720

Operating leases

The Company has obligations under vehicle leases and long-term, non-cancellable operating leases for premises. The leases for premises generally have five year terms, include five year renewal options, and provide for payment of operating expenses and real estate taxes in excess of the amounts established at the commencement of the leases. The future minimum lease payments and estimated related costs for each of the next five years are as follows:

2003	$ 555
2004	237
2005	159
2006	24
2007	-
	$ 975

Note 14

Budget

The 2002 budget was approved by the Board of Directors on August 8, 2001 and is presented for comparison with the 2002 actual figures.

Note 15

Subsequent event

Based on the Agriculture Financial Services Amendment Act, 2002, effective April 1, 2002, the Alberta Opportunity Fund Act was repealed and the operations, assets, liabilities, rights and obligations of the Company were transferred at book value to the Agriculture Financial Services Corporation.

Loans and Guarantees for Fiscal Year 2002

Authorizations to March 31 (unaudited)

	2002		2001		2000		1999	
	#	$	#	$	#	$	#	$
Applications Received	**392**	**75,880,900**	465	75,657,800	481	75,770,400	483	75,969,400
Authorized	**290**	**52,390,400**	315	47,269,400	341	48,210,000	322	44,301,500
Cancellations	**53**	**9,860,500**	48	7,839,000	32	5,623,000	36	5,033,500
Net Authorizations Made	**237**	**42,529,900**	267	39,430,400	309	42,587,000	286	39,268,000
Average Amount		**179,500**		147,700		137,800		137,300
Median Amount		**124,250**		82,400		80,900		83,500
Net Authorizations by Size								
50,000 & under	**57**	**1,572,400**	90	2,520,000	111	3,042,400	108	2,963,200
50,001 to 100,000	**46**	**3,503,400**	68	5,582,900	68	5,401,300	53	4,266,500
100,001 to 200,000	**60**	**9,210,700**	43	6,433,500	62	9,813,300	63	9,081,800
200,001 to 500,000	**61**	**19,373,900**	57	18,314,000	58	18,039,000	53	15,451,500
Over 500,000	**13**	**8,869,500**	9	6,580,000	10	6,291,000	9	7,505,000
Net Authorizations by Purpose								
Establish New Business	**44**	**8,053,900**	27	3,277,500	39	3,803,300	26	4,515,700
Expand Existing Business	**149**	**23,686,000**	193	27,374,600	228	31,035,200	223	29,457,400
Purchase Existing Business	**44**	**10,790,000**	47	8,778,300	42	7,748,500	37	5,294,900
Net Authorizations by Region								
Northern Alberta	**61**	**10,401,500**	71	9,489,800	87	11,786,400	92	12,582,600
Central Alberta	**48**	**9,532,400**	53	6,731,600	59	7,252,400	58	9,070,800
Southern Alberta	**39**	**6,543,900**	39	5,271,300	48	5,964,600	48	6,334,000
Edmonton	**38**	**5,151,400**	46	6,182,000	44	6,587,500	35	4,132,200
Calgary	**51**	**10,900,700**	58	11,755,700	71	10,996,100	53	7,148,400

Total Cumulative Net Authorizations by Region (to March 31, 2002)

Branch Offices

Calgary
Manager: Ron Fredrickson
#790, 10655 Southport Road SW
Calgary, Alberta T2W 4Y1
ph: (403) 297-6437 / fax: (403) 297-4136
email: aoccalgary@aoc.gov.ab.ca

Edmonton
Manager: Art Foulston
#905 Weber Centre
5555 Calgary Trail South
Edmonton, Alberta T6H 5P9
ph: (780) 427-2140 / fax: (780) 422-9738
email: aocedmonton@aoc.gov.ab.ca

Edson
Manager: Les McKain
4924 - 1st Avenue
P.O. Box 7110
Edson, Alberta T7E 1V4
ph: (780) 723-8233 / fax: (780) 723-8575
email: aocedson@aoc.gov.ab.ca

Grande Prairie
Manager: Allan Kuechle
#1128, 9909 - 102 Street
Grande Prairie, Alberta T8V 2V4
ph: (780) 538-5220 / fax: (780) 538-5531
email: aocgrandeprairie@aoc.gov.ab.ca

Lethbridge
Manager: Ken Huston
Suite 201, 714 - 5th Avenue South
Lethbridge, Alberta T1J 0V1
ph: (403) 381-5474 / fax: (403) 381-5567
email: aoclethbridge@aoc.gov.ab.ca

Medicine Hat
Manager: Bruce Martin
#201, 1290 Trans Canada Way SE
Medicine Hat, Alberta T1B 1J5
ph: (403) 504-2155 / fax: (403) 504-2159
email: aocmedicinehat@aoc.gov.ab.ca

Peace River
Manager: Mark Caveny
9809 - 98 Avenue, Bag 900-23
Peace River, Alberta T8S 1J5
ph: (780) 624-6387 / fax: (780) 624-6493
email: aocpeaceriver@aoc.gov.ab.ca

Ponoka
Account Manager: Kris Ravnsborg
5110 - 49 Avenue
P.O. Box 4040
Ponoka, Alberta T4J 1R5
ph: (403) 783-7011 / Fax: (403) 783-7079
email: aocponoka@aoc.gov.ab.ca

Red Deer
Manager: Dan O'Connell
Suite 401, 4901 - 48 Street
Red Deer, Alberta T4N 6M4
ph: (403) 340-5551 / fax: (403) 340-5214
email: aocreddeer@aoc.gov.ab.ca

St. Paul
Manager: Roger Lindstrand
Suite 200, 4341 - 50 Avenue
St. Paul, Alberta T0A 3A3
ph: (780) 645-6356 / fax: (780) 645-6207
email: aocstpaul@aoc.gov.ab.ca

Head Office

Ponoka
5110 - 49 Avenue
P.O. Box 4040
Ponoka, Alberta T4J 1R5
web: http://www.aoc.gov.ab.ca

Board of Directors

James R. Anderson
President and CEO, Ponoka

Thomas Bugg
Director, Calgary, Retired December 31, 2001

James Cumming
Director, Edmonton, Retired December 31, 2001

Lynn Dechant
Director, Fairview, Appointed January 1, 2002

Eugene Dextrase
Director, High Level, Appointed January 1, 2002

Paul Evaskevich
Director, Grande Prairie, Retired December 31, 2001

Aaron Falkenberg
Director, Sherwood Park, Appointed January 1, 2002

Art Froehlich
Director, Calgary, Appointed January 1, 2002

Lawrence Gordon
Director, Medicine Hat, Retired December 31, 2001

David Hardy
Director, Red Deer, Retired December 31, 2001

Barry Holmes
Director, Rocky Mountain House, Appointed March 18, 1998

Bernard Kotelko
Director, Vegreville, Appointed January 1, 2002

Brian Manning
Director, Edmonton, Appointed January 1, 2002

Gerard Oosterhuis
Director, Bow Island, Appointed January 1, 2002

Michael Procter
Chair, Peace River, Retired December 31, 2001

Louise Severin
Director, St. Paul, Retired December 31, 2001

Bob Splane
Chairman, Lacombe, Appointed January 1, 2002

Wayne Wagner
Director , Edmonton, Appointed December 4, 1996

Executive Officers

James R. Anderson
President and CEO

John D. Kennedy
Regional Vice President, North
Retired November 30, 2001

John D. Ablett
Regional Vice President, South

Mag R. Greipl
Chief Financial Officer

Gerry McCracken
Manager, Corporate Development

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Alberta Opportunity Company

Alberta Opportunity Company

Head Office
5110 - 49 Avenue
Ponoka, Alberta
T4J 1R5

Phone: 1-800-661-3811
Fax: (403) 783-7032

Web: www.aoc.gov.ab.ca
Email: aocponoka@aoc.gov.ab.ca

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